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SUBJECT: FINLAND TAKES MEASURES TO BOOST FINANCIAL MARKETS

¶1. Noting that banks have recently had to focus efforts to satisfy the financial needs of large-scale businesses, the Finnish Cabinet Committee on Economic Policy outlined on January 27 measures to boost financial markets in Finland. The committee announced that it will submit to Parliament in early February a proposal for state capital investment in deposit-taking banks. The state will offer banks interest bearing subordinate loans which can be considered as Tier 1 capital. The government also will grant state guarantees of up to 50 billion euros total for the refunding of Finnish banks and will charge a market-based fee for guarantees. In order to avail themselves of these benefits, banks must agree to restrict the salaries of top managers. The Ministry of Finance has decided to grant the State Pension Fund the right to a limited use of the assets in its possession to acquire commercial papers of significant and financially solid Finnish companies, a decision that is intended to promote the recovery of the commercial paper market, which has been decimated in the ongoing economic downturn.

¶2. Econoff met February 5 with Markku Puumalainen, Financial Counselor in the Financial Markets Department of the Finnish Ministry of Finance. Puumalainen commented that the government expected the measures listed in para 1 would be implemented by the end of February. To date, banks have indicated they do not need to take advantage of the programs offered by the government. According to Puumalainen, far from needing short-term security guarantees, many Finnish banks have more short-term liquidity than they need. However, long and medium term liquidity is an issue, so the government has agreed to divide the 50 billion euros slightly differently than originally anticipated by offering banks the opportunity apply a larger segment for longer-term financing.

¶3. The banking and commerce sectors have responded positively to the package. Small and medium-sized businesses in particular have had a very hard time securing affordable financing. The government's recently announced economic stimulus package (see septel) should allay critics' concerns that the measures to boost financial markets ignored the issue of low demand for goods and services. Taken together, the Government hopes that the financial market package and the economic stimulus plan will lessen the need for layoffs and job cuts.

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